



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 21, 2000

### **H.R. 3378** **Tijuana River Valley Estuary and Beach Sewage Cleanup Act of 2000**

*As passed by the House of Representatives on September 12, 2000*

#### **SUMMARY**

H.R. 3378 would direct the U.S. section of the International Boundary and Water Commission (IBWC) to enter into a contract with the owner of a wastewater treatment facility in Mexico. Under this contract, the owner would treat water to certain U.S. standards, and the federal government would make annual payments over a 30-year period to cover the costs of developing, financing, constructing, operating, and maintaining the facility.

The act would authorize the appropriation of amounts necessary to implement the proposed contract. CBO estimates that implementing H.R. 3378 would cost \$166 million over the 2001-2005 period and an additional \$430 million after fiscal year 2005. H.R. 3378 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

H.R. 3378 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 3378 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

	By Fiscal Year, in Millions of Dollars				
	2001	2002	2003	2004	2005
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Estimated Authorization Level	1	0	0	280	0
Estimated Outlays	1	0	0	26	139

## **BASIS OF ESTIMATE**

This cost estimate is based on information from the Environmental Protection Agency (EPA), the U.S. section of IBWC, and Agua Clara LLC, a firm interested in the project. Implementing H.R. 3378 would require the U.S. section of the IBWC to follow a competitive-bid process and renegotiate certain treaty minutes with its Mexican counterpart before entering the contract. Once those activities are completed, CBO expects construction of a wastewater treatment plant would begin in fiscal year 2004.

H.R. 3378 would direct EPA to study the wastewater treatment needs of the border region between San Diego and Tijuana, Mexico. The act would authorize the IBWC to enter into a 30-year contract with a private entity for the treatment of 50 million gallons of water per day (mgd), plus an additional 25 mgd subject to the results of the EPA study. Based on information from EPA, CBO expects the study would cost about \$1 million (in 2001) and that the IBWC would enter into a contract for the treatment of 75 mgd.

The contract for wastewater treatment services authorized by H.R. 3378 would meet the criteria of a federal lease-purchase contract, meaning that the government is effectively purchasing—not leasing—the wastewater treatment plant. CBO bases this conclusion on the fact that the wastewater treatment plant would be built for the special purpose of the government, and there would be little or no private-sector market for this particular facility. Furthermore, the 30-year term of the lease would extend through most of the plant's expected economic life, and the lease payments over this period would pay for most of the facility's cost. Finally, the contract terms would provide that the plant be transferred to the government if either side fails to meet its contractual obligations.

Funds to execute federal lease-purchase contracts receive a special budgetary treatment. When the government enters into lease-purchase contracts, the present value of all expected future lease payments is supposed to be provided in an appropriation act in the first year of the contract. CBO estimates that H.R. 3378 would authorize the appropriation of \$280 million in 2004 to enter into the specified wastewater treatment contract. This estimate assumes that the construction of the facility would cost \$124 million in 2004, and that its private builder would seek a 15-percent rate of return under the lease terms to cover financing and other costs.

The cost of a lease-purchase contract that involves substantial financial risk for the government is accounted for over the project's construction period, rather than the term of the lease. Thus, CBO estimates that implementation of H.R. 3378 would cost \$280 million over the 2004-2007 construction period. After construction is complete, we estimate that implementing H.R. 3378 would cost between \$8 million and \$16 million each year for operating and maintaining the plant during the remainder of the contract period. In total, CBO estimates that implementing H.R. 3378 would cost \$596 million over the 2004-2034 period.

**PAY-AS-YOU-GO CONSIDERATIONS:** None.

**INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 3378 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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